State Profile

Spring 2006

Colorado

The Colorado economy grew faster than the nation during 2005.

- Employment revisions by the U.S. Bureau of Labor Statistics place the state's fourth quarter 2005 employment growth rate at 2.2 percent ranking it as the 16th fastest growing state (see Chart 1). For the entire year Colorado job growth averaged 2.1 percent, the state's best showing since 2000, and above the U.S. growth rate of 1.5 percent.

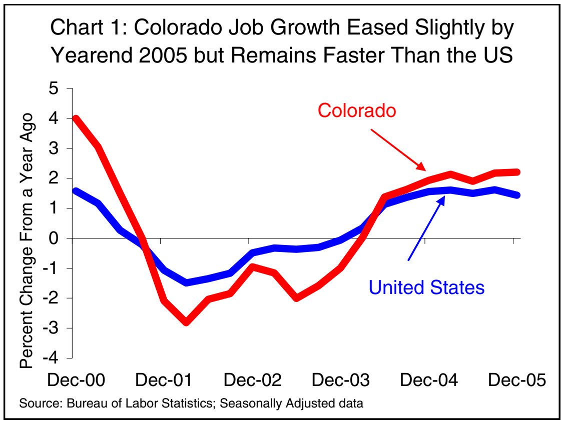
- Once again, employment growth was fastest in the natural resources and mining, and construction sectors at 8.7 percent and 6.1 percent, respectively. Colorado's information sector continues to be the focus of statewide employment losses -- particularly in the telecommunications industry, which shed 1,700 workers or 5.6 percent of the industry's workforce for the year ending fourth quarter 2005.

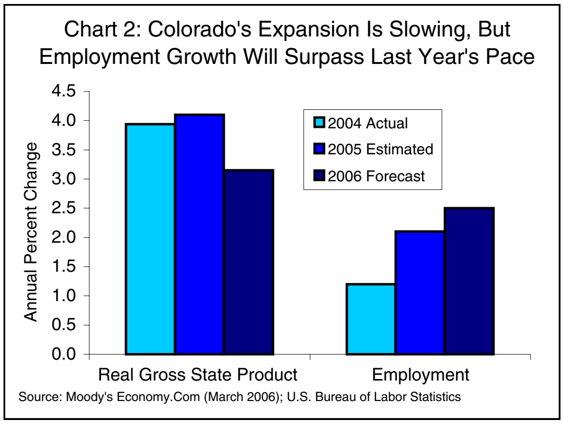
Continued stronger job growth is expected in 2006.

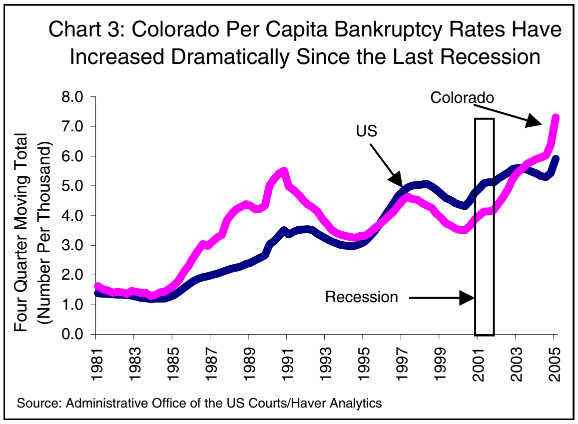
- Based on several independent economic forecasts, Colorado's employment performance in 2006 will likely surpass last year's moderate pace.[1] Moody's Economy.com is projecting job growth in the mid 2 percent range, providing over 50,000 new jobs for Coloradans this year (see Chart 2). However, the state's unemployment rate may decline only slightly in 2006 primarily because of increasing net migration and civilian labor force growth.

- According to the Colorado *Office of Planning and Budgeting*, residential construction activity is projected to stay flat in 2006 hampered by a high inventory of homes and rising mortgage rates.[2] If housing demand slows as expected, the pace of home price growth could soften in several of the state's metropolitan areas.[3]

- Colorado's construction sector contributed 21 percent of the state's net job growth in fourth quarter 2005 despite







[1] "Colorado Economic Perspective, March 20, 2006," Colorado Office of Planning and Budgeting, http://www.state.co.us/gov_dir/govnr_dir/ospb/economics/cep/2006/cep2006-03.pdf
[2] "Colorado Economic Perspective, March 20, 2006," Colorado Office of Planning and Budgeting, http://www.state.co.us/gov_dir/govnr_dir/ospb/economics/cep/2006/cep2006-03.pdf
[3] Based on housing price forecasts by Fiserv Lending Solutions as reported by CNNMoney.com, February 2, 2006, http://money.cnn.com/2006/02/02/real_estate/house_price_predictions_for_2006/index.htm

accounting for only slightly more than 7 percent of the state's total nonfarm employment base. Like other western U.S. states Colorado's overall job performance could be vulnerable to a sharp unexpected slowdown in construction activity.

- Continued high energy prices should enable the state's important mining sector to add jobs at a relatively crisp pace, although not at the double-digit growth rates witnessed between third quarter 2004 and third quarter 2005. Crude oil prices increased 33 percent in 2004 and 36 percent in 2005, and are forecast to increase another 13 percent in 2006 according to the Energy Information Administration.[4]

Colorado insured institutions posted solid results for the 2005.

- Banks and thrifts headquartered in Colorado posted a median return on assets of 1.22 percent for the 12 months ending December 31, 2005, above that of the last two calendar years and higher than the national average of 1.04 percent.

- Improving credit quality has allowed provision expenses to remain at decade-low levels, but there is little room for further declines in this expense category.

- Almost three out of four insured institutions in Colorado hold less than $250 million in assets, and earnings for these institutions are driven, in large part, by the net interest margin (NIM). Colorado institutions enjoy a relatively high percentage of funding from core sources (third highest in the nation) resulting in lower than average cost of funding earning assets.[5]

- The strong, positive correlation between short-term interest rates and the median NIM of Colorado financial institutions suggests that the state's institutions have been relatively asset sensitive, and have benefited from recent short-term interest rate hikes. However, the yield curve flattened in 2005, which historically has created challenges for bank earnings. This development could imply increasing pressure on margins for Colorado institutions in 2006.

Consumer fundamentals remain an area to watch.

- Per-capita personal bankruptcy filings in Colorado increased during third quarter 2005. The Colorado four-quarter moving average is now at the highest level seen in the past 25 years (see Chart 3) and is significantly above the national average. Similarly, mortgage foreclosures remain among the highest levels in a decade, more than three times the level reported just four years ago.

- Bankruptcy filings jumped sharply prior to the enactment of new bankruptcy legislation last October but are expected to fall in 2006. However, rising short-term interest rates and higher premium minimum payments required on credit cards may keep filings at elevated levels in the near term.

- Data suggest that innovative mortgages and investors could be influencing housing demand. Interest-only and negative amortization loans accounted for 60 percent of nonconforming mortgage originations in Colorado during the first 11 months of 2005. Over the same period, investors and second-home purchasers accounted for 20 percent of Colorado Alt-A mortgage originations.[6]

- The proliferation of innovative mortgages, combined with elevated bankruptcies and foreclosures, suggests a shifting risk profile for consumers, and remains an area to watch.

Commercial real estate (CRE) loan exposure continues to rise for Colorado insured institutions.

- CRE fundamentals continue to show improvement in most markets. Similarly, past-due rates for CRE and construction and development loans are among the lowest levels in a decade, ranking 29th nationally.

- Concentrations in CRE lending continue to rise for Colorado institutions. Up from 16 percent ten years ago, 45 percent of Colorado institutions reported CRE exposure greater than 300 percent of Tier 1 capital as of December 31, 2005, the 15th highest percentage in the nation.

[4] http://www.eia.doe.gov/emeu/steo/pub/contents.html.
[5] Core funding includes checking, savings, and small certificates of deposit are typically considered to be a more stable source of funding than non-core funding (brokered deposits, borrowings, etc).
[6] Based on BC and Alt-A private mortgage securitizations tracked by LoanPerformance. Alt-A loans include mortgages not meeting Fannie Mae or Freddie Mac size, loan-to-value, or other underwriting criteria, but are generally of prime credit risk.

Colorado at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.2%	2.2%	1.9%	1.2%	-1.4%
Manufacturing (7%)	-0.7%	-1.0%	0.0%	-1.4%	-6.0%
Other (non-manufacturing) Goods-Producing (8%)	7.6%	8.0%	3.9%	1.6%	-5.9%
Private Service-Producing (69%)	2.1%	2.0%	2.0%	1.6%	-0.8%
Government (16%)	1.3%	1.4%	1.5%	0.6%	0.2%
Unemployment Rate (% of labor force)	4.8	5.0	5.5	5.6	6.1

Other Indicators	Q4-05	Q3-05	Q4-04	2004	2003
Personal Income	N/A	6.7%	8.2%	5.8%	2.6%
Single-Family Home Permits	13.0%	6.9%	-5.0%	11.9%	-4.4%
Multifamily Building Permits	-39.6%	-19.8%	-13.1%	6.7%	-46.1%
Existing Home Sales	1.4%	7.9%	0.0%	12.1%	2.7%
Home Price Index	6.0%	5.8%	4.4%	3.9%	2.8%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	12.59	9.87	5.57	5.95	5.58

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	172	175	177	177	180
Total Assets (in millions)	43,915	43,370	39,394	39,394	35,347
New Institutions (# < 3 years)	10	10	11	11	12
Subchapter S Institutions	44	45	44	44	41

Asset Quality	Q4-05	Q3-05	Q4-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.13	1.08	1.27	1.27	1.44
ALLL/Total Loans (median %)	1.09	1.10	1.19	1.19	1.23
ALLL/Noncurrent Loans (median multiple)	1.90	2.27	2.08	2.08	2.53
Net Loan Losses / Total Loans (median %)	0.05	0.04	0.09	0.09	0.12

Capital / Earnings	Q4-05	Q3-05	Q4-04	2004	2003
Tier 1 Leverage (median %)	8.62	8.76	8.56	8.56	8.30
Return on Assets (median %)	1.20	1.27	1.14	1.09	1.05
Pretax Return on Assets (median %)	1.51	1.78	1.42	1.41	1.47
Net Interest Margin (median %)	4.51	4.53	4.36	4.33	4.35
Yield on Earning Assets (median %)	6.60	6.47	5.82	5.70	5.90
Cost of Funding Earning Assets (median %)	2.08	1.85	1.30	1.22	1.41
Provisions to Avg. Assets (median %)	0.11	0.09	0.08	0.10	0.13
Noninterest Income to Avg. Assets (median %)	0.74	0.80	0.74	0.79	0.81
Overhead to Avg. Assets (median %)	3.40	3.29	3.36	3.28	3.27

Liquidity / Sensitivity	Q4-05	Q3-05	Q4-04	2004	2003
Loans to Assets (median %)	63.1	64.1	64.7	64.7	60.9
Noncore Funding to Assets (median %)	16.1	16.4	15.9	15.9	15.7
Long-term Assets to Assets (median %, call filers)	10.4	11.2	13.0	13.0	15.0
Brokered Deposits (number of institutions)	50	48	40	40	33
Brokered Deposits to Assets (median % for those above)	3.5	3.7	5.4	5.4	4.0

Loan Concentrations (median % of Tier 1 Capital)	Q4-05	Q3-05	Q4-04	2004	2003
Commercial and Industrial	66.5	67.1	65.1	65.1	63.1
Commercial Real Estate	260.6	255.5	249.0	249.0	203.9
Construction & Development	64.2	70.7	59.1	59.1	49.5
Multifamily Residential Real Estate	4.7	3.8	4.7	4.7	5.0
Nonresidential Real Estate	145.8	140.6	144.9	144.9	121.2
Residential Real Estate	131.2	132.6	135.3	135.3	138.5
Consumer	18.4	18.9	19.8	19.8	26.8
Agriculture	7.1	6.6	6.5	6.5	5.6

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Denver-Aurora, CO	87	39,459	< $250 million	124 (72.1%)
Boulder, CO	30	5,350	$250 million to $1 billion	38 (22.1%)
Colorado Springs, CO	43	4,953	$1 billion to $10 billion	10 (5.8%)
Fort Collins-Loveland, CO	31	3,713	> $10 billion	0 (0%)
Greeley, CO	29	2,604		